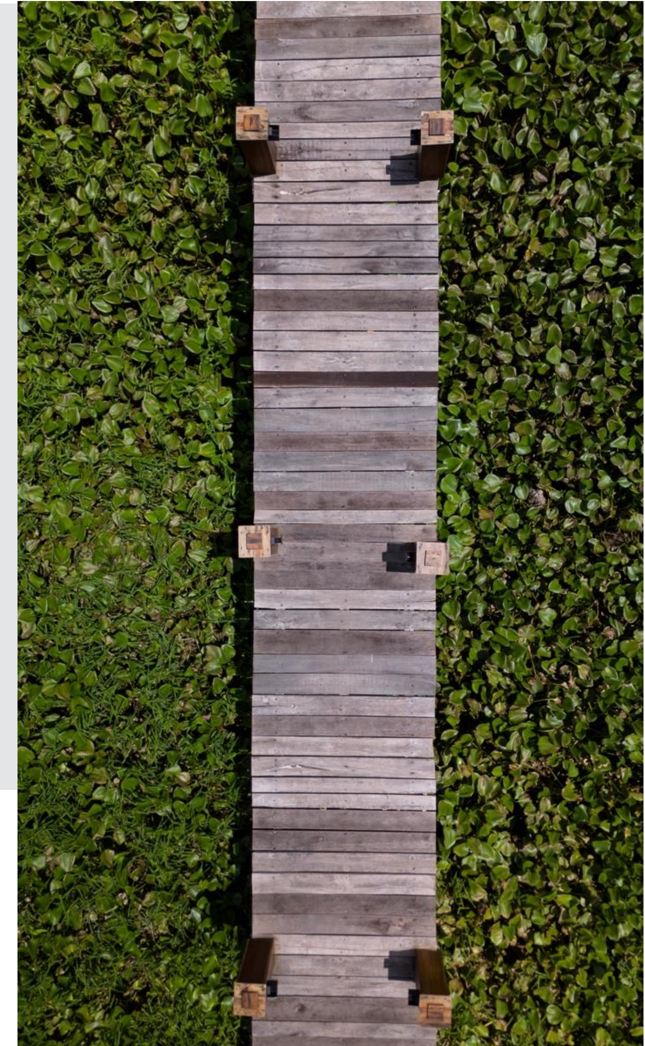
TELOMERE | Capital

Market Update

Steady Course Amid Uncertainties

November 2024

Editorial



October was a pretty eventful month for global markets. In the U.S., job gains slowed to their lowest in years, mostly because of temporary setbacks from strikes and weather events. Nevertheless, the unemployment rate held steady, indicating a stable labor market environment. At the same time, inflation remains a focus, with the recent rise (MoM) in U.S. inflation figures sparking debate about future policy moves, while in Europe the ECB responded with another rate cut, aiming to balance growth with inflation control.

European markets also showed mixed signals. Germany managed to pull itself out of a technical recession and the UK posted positive economic results as inflation eased. The spotlight is now on the upcoming U.S. election, which has the potential to influence both economic and market direction.

On the corporate side, tech and communications earnings have been impressive, although some are eyeing potential pressure on tech margins this season. For those seeking an inflation hedge, TIPS may offer some value as inflation is expected to remain elevated under both candidates.

We hope you enjoy reading and find these updates helpful for the month ahead.

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Partner & Senior Financial Advisor

Global **Markets**

Global	Last	YTD	MTD
MSCI World	3,647.1	17.0%	-2.0%
MSCI ACWI	832.3	16.5%	-2.2%

United States			
Dow Jones Industrial	41,763.5	12.5%	-1.3%
S&P 500	5,705.5	21.0%	-0.9%
NASDAQ 100	19,890.4	19.0%	-0.8%
Russell 2000	2,196.7	9.6%	-1.4%

Europe			
Euro STOXX 600	505.4	8.8%	-3.2%
Euro STOXX 50	4,827.6	10.1%	-3.3%
DAX	19,077.5	13.9%	-1.3%
CAC 40	7,350.4	0.3%	-3.7%
FTSE 100	8,110.1	8.2%	-1.4%
Swiss Market Index (SMI)	11,792.9	9.3%	-3.1%

Sectors (US)			
Communication Services		30.7%	2.5%
Consumer Discretionary		11.2%	-2.0%
Consumer Staples		15.9%	-2.8%
Energy		9.1%	0.3%
Financials		27.7%	3.0%
Health Care		9.3%	-4.6%
Industrials		19.0%	-1.2%
Materials		10.1%	-3.6%
Real Estate		10.6%	-3.4%
Technology		26.7%	-0.7%
Utilities		29.1%	-1.1%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	2,738.1	33.0%	4.2%
Silver (XAG)	32.8	37.3%	4.8%

Currencies (USD)			
EUR	1.09	-1.4%	-2.3%
CHF	0.86	-2.7%	-2.2%
JPY	152.0	7.8%	5.8%
BTC	69,687.2	66.8%	9.6%

Fixed Income			
US Treasury	2,308.31	1.4%	-2.4%
EUR Treasury	243.88	1.0%	-1.0%
Global Corporate	3,312.78	2.8%	-2.4%
Global EM USD	1,248.1	6.7%	-1.4%
Global High Yield	1,659.8	8.9%	-0.6%

Interest Rates (US)		Last month	End 2023
3 Months	4.54%	4.62%	5.33%
12 Months	4.27%	4.00%	4.76%
5 Year	4.16%	3.56%	3.85%
10 Year	4.28%	3.78%	3.88%

Price / Earnings Ratios		End 2023	End 2022
S&P 500	26.03	23.00	18.28
Euro STOXX 50	13.95	12.99	11.69
Swiss Market Index (SMI)	19.00	19.00	14.79

Data at close of 31/10/2024

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q3 2024	Q2 2024	Q1 2024
United States	4.88%	4.88%	5.38%	5.38%
Eurozone	3.40%	3.65%	4.25%	4.50%
Switzerland	0.96%	0.97%	1.23%	N/A
Canada	3.75%	4.25%	4.75%	5.00%
Japan	0.05%	-0.05%	-0.09%	N/A
China	0.35%	0.35%	0.35%	0.35%
India	6.50%	6.50%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.40%	2.40%	3.00%	3.50%
Eurozone	2.00%	1.70%	2.50%	2.40%
Switzerland	0.60%	0.80%	1.30%	1.00%
Canada	1.60%	1.60%	2.70%	2.90%
Japan	2.50%	2.50%	2.80%	2.70%
China	0.40%	0.40%	0.20%	0.10%
India	5.49%	5.49%	5.08%	4.85%

Unemployment	Last	Q3 2024	Q2 2024	Q1 2024
United States	4.10%	4.10%	4.10%	3.80%
Eurozone	6.30%	6.30%	6.40%	6.50%
Switzerland	2.60%	2.60%	2.40%	2.30%
Canada	6.50%	6.50%	6.40%	6.10%
Japan	2.40%	2.40%	2.50%	2.60%
China	5.10%	5.10%	5.00%	5.20%

Gross Domestic Product (YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.70%	2.70%	3.00%	2.90%
Eurozone	1.00%	N/A	1.00%	0.30%
Switzerland	1.80%	N/A	1.80%	0.60%
Canada	1.30%	N/A	1.30%	0.70%
Japan	2.10%	N/A	2.10%	2.50%
China	4.60%	4.60%	4.70%	5.30%
India (Real GDP)	6.65%	N/A	6.65%	7.76%

Producer Price Index (PPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	-0.70%	-0.70%	1.60%	1.80%
European Union	-0.80%	N/A	0.10%	-1.20%
Switzerland	-1.30%	-1.30%	-1.90%	-2.10%
Canada	-0.87%	-0.87%	2.90%	-0.40%
Japan	2.80%	2.80%	2.60%	0.90%
China	-2.80%	-2.80%	-0.80%	-2.80%
India	1.84%	1.84%	3.43%	0.26%

Purchasing Managers' Index	Last	Q3 2024	Q2 2024	Q1 2024
United States	46.5	47.2	48.5	50.3
Eurozone	45.9	45	45.8	46.1
Switzerland	49.9	49.9	43.9	45.2
Canada	51.1	50.4	49.3	49.8
Japan	49.2	49.7	50	48.2
China	50.1	49.8	49.5	50.8
India	57.4	56.5	58.3	59.1

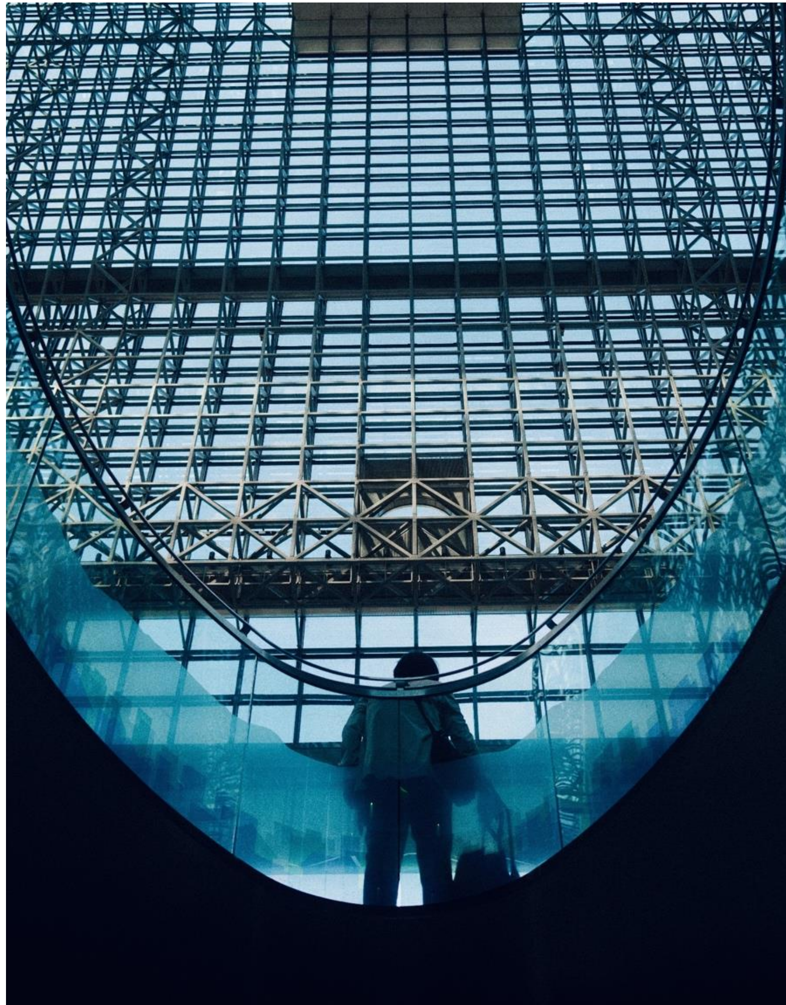
Core Inflation (Core CPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	3.30%	3.30%	3.30%	3.80%
Eurozone	2.70%	2.70%	2.90%	2.90%
Switzerland	0.80%	1.00%	1.10%	1.00%
Canada	2.40%	2.40%	2.90%	2.90%
Japan	1.70%	1.70%	1.90%	2.20%

Consumer Spending (PCE - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.65%	2.65%	2.63%	2.98%

Data as of 01/11/2024

N/A: Not yet reported or Public Holiday

October **Macro News**



- **The U.S. economy added only 12'000 jobs** in October 2024, which was significantly lower than expected and the smallest monthly job gain in years due mostly to temporary factors such as hurricanes and strikes. Despite the weak job growth, the unemployment rate remained unchanged at 4.1%.
- **US inflation rose more than expected in September.** Core CPI rose 0.3% on a monthly basis, slowing recent progress in moderating price pressures. PCE prices excluding volatile food and energy items rose 2.7%, supporting the case for a slower pace of rate cuts in coming months.
- **Germany slipped just out of a technical recession**, while the European flash PMI composite (49.7) remained just in contraction territory. On an aggregate basis, eurozone GDP rose 0.4% quarter-on-quarter, more than expected. In the UK, inflation slowed more than anticipated and GDP growth was positive.
- **The ECB lowered its key interest rates by 25 basis points** at its latest meeting. This is the third rate cut in 2024, following similar cuts in June and September. No meeting and therefore no action by the FED in October, but another 25 basis point cut is expected at the next FOMC meeting on November 7, regardless of the outcome of the US presidential election.
- **Equity sentiment weakened** and geopolitical uncertainty remained elevated as the US elections approach. US equities fell for the first time in six months and Chinese equities traded in a range, awaiting further policy stimulus.

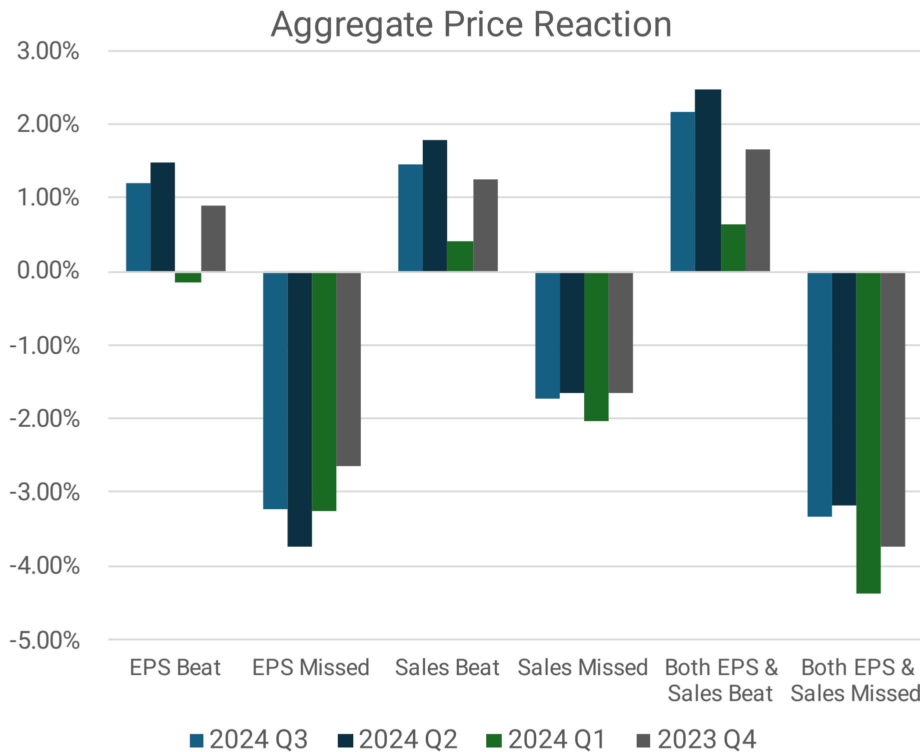
Current **Environment**

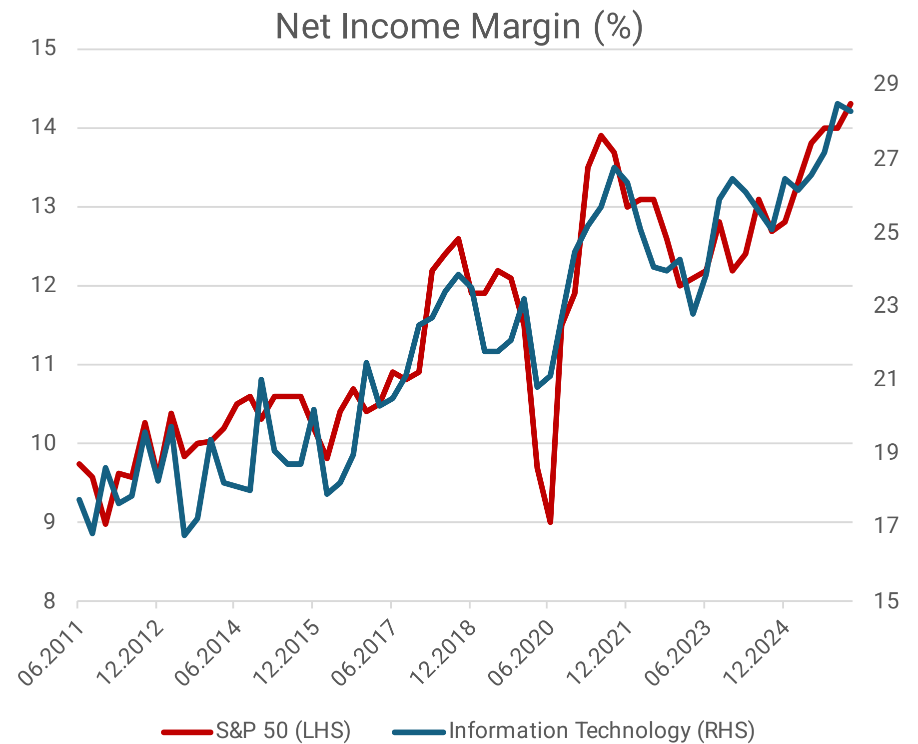
- **Inflation appears to be globally slowing. All the main sources of global inflation are showing figures that are down or in line.** However, a closer look reveals that inflation in services remains a concern, making it difficult for central banks to normalize monetary policy. At the same time, the global labor market remains fairly stable, which is particularly reassuring for the future of the US economy.
- **The soft landing remains the most likely scenario, supported mainly by data from the US.** Indeed, the US economy continues to demonstrate remarkable resilience, with a 3Q 2024 GDP growth of 3.0% Y-o-Y. However, consumer spending is anticipated to decelerate in the second half of the year due to elevated interest rates and a moderating labor market.
- **Early November 2024 will be a pivotal month for financial markets and the global economy.** The US presidential election is the most anticipated event of the month, and several major central banks have policy meetings scheduled. This is a pivotal moment for the global economy, with the potential to set trends for the remainder of the year and beyond.
- **The major central banks moved in tandem and started their cycle of rate cuts.** Policymakers are adopting a dovish tone, and the ECB has continued its easing cycle. These moves confirm a shift towards a more accommodative monetary policy stance, with further rate cuts expected in the coming months.
- **Employment data is becoming increasingly important as it provides insight into the health of the wider economy**. Recent figures have been reassuring, but this apparent strength in the labor market could be misleading as many workers are taking multiple part-time jobs due to the high cost of living and inadequate unemployment benefits. In addition, jobless claims, which are usually a reliable indicator of unemployment, have become less reliable as more unemployed workers exhaust their benefits and become ineligible to claim.
- **Several major strikes are currently underway or have recently concluded** around the world. If prolonged, such strikes could lead to supply shortages, higher prices for a wide range of goods and potential job losses in the underlying industries affected. Wage demands, including increases of up to 40%, could contribute to inflationary pressures if they are met.

Earnings **Results and Revisions**

It's been another great quarter for large caps so far, with some impressive earnings and revenue beats. Technology and communications majors have been leading the way, and as the market turns to less expensive small-cap stocks, companies with earnings that exceed expectations may provide a boost to overall stock performance.

So far, 75.1% of companies exceeded EPS estimates, compared to the three-year post-Covid average of 78.7%. Conversely, 16.9% fell short of expectations, aligning with the 17.3% norm. Keep an eye on tech margins during this earnings season. While most people think the sector will grow significantly, if margins are lower than expected due to higher-than-expected capex, tech companies could have a tough time this season. In Q3, the consensus is for tech to have double the net margin of the S&P 500.





Source: Bloomberg Intelligence

Implications of **US Elections (1)**

A high degree of uncertainty surrounds the potential economic and market implications of the 2024 election. Both candidates represent distinct policy approaches with potentially divergent impacts. Here's a breakdown of potential scenarios.

Donald Trump Victory:

1. **Increased Inflation**: A Trump victory is associated with an increased risk of inflation. His proposed tax cuts are potentially expansionary, leading to higher interest rates from the Federal Reserve. In addition, his campaign promise of sweeping tariff increases could exacerbate inflation and slow economic growth, further necessitating higher interest rates. This expectation of "Trump inflation" is reflected in trader behavior and the performance of Republican-aligned stocks.
2. **Bond Market Volatility**: Trump's potential return to the White House has sparked concern in the bond market. His policies, particularly on trade, are perceived as potentially disruptive and could trigger a spike in bond yields similar to what happened during his first term. This is reflected in the close correlation between the 10-year Treasury yield and the odds of a Trump victory.
3. **Stock Market Uncertainty**: While the stock market initially reacted positively to Trump's victory in 2016 (see slide after), his subsequent trade wars and rising bond yields eventually led to a significant sell-off. It is unclear whether the stock market could sustain a similar rally under a second Trump presidency, particularly in the face of potential trade wars, rising bond yields, and persistent inflation.

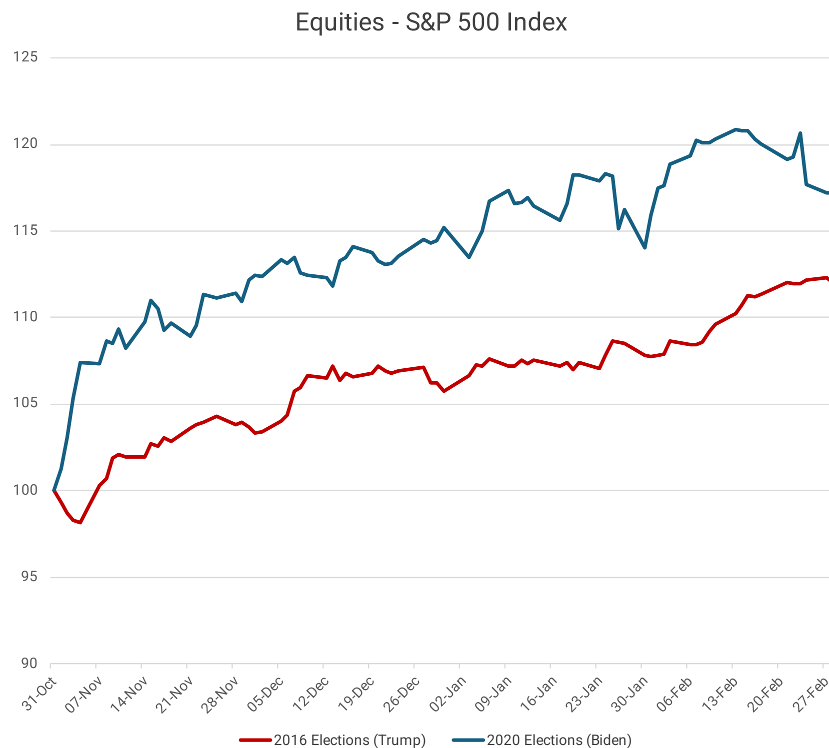
Kamala Harris Victory:

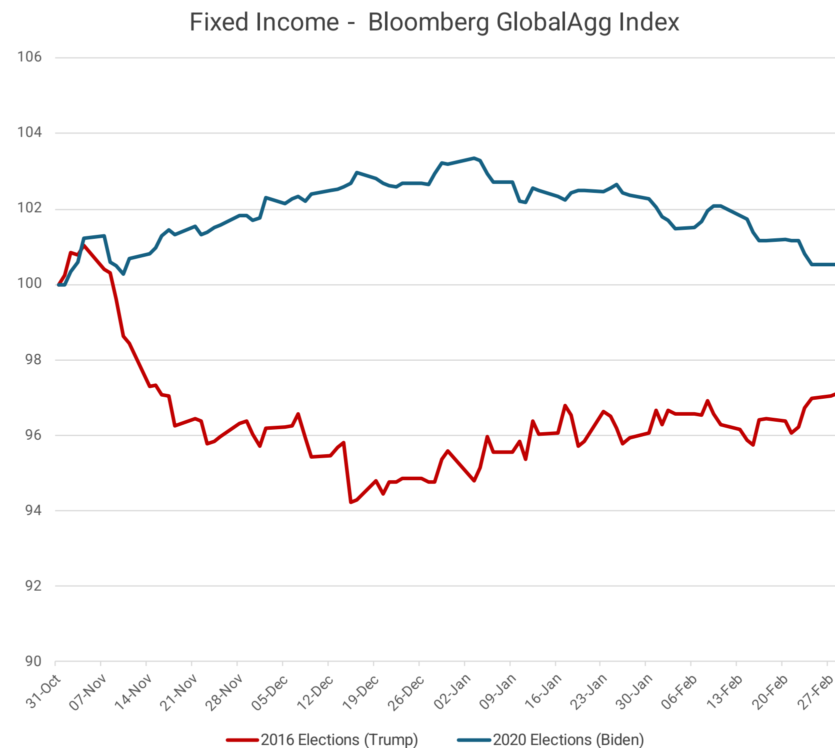
It is difficult to directly address the potential economic and market implications of a Kamala Harris victory. However, the market's pro-growth trade of buying stocks relative to bonds has surged in response to Trump's perceived rising chances, suggesting that a Harris victory might be met with a less enthusiastic market response.

Implications of **US Elections (2)**

It is important to note that markets are forward-looking and often overreact to potential outcomes. Beyond the election, global economic factors, such as the slowdown in the Eurozone and the stimulus measures in China, will also play a significant role in shaping the US economy and financial markets, irrespective of who wins the presidency.

Also, the ultimate impact of either candidate's policies will depend on their ability to successfully implement them. The translation of campaign promises into tangible economic effects is not always straightforward, as demonstrated by the unexpected performance of clean energy and coal stocks under Trump and Biden, respectively. Regardless of the outcome, inflationary pressures are likely to remain elevated, driven by persistent government spending and global economic factors. This could continue to influence interest rates and market volatility.





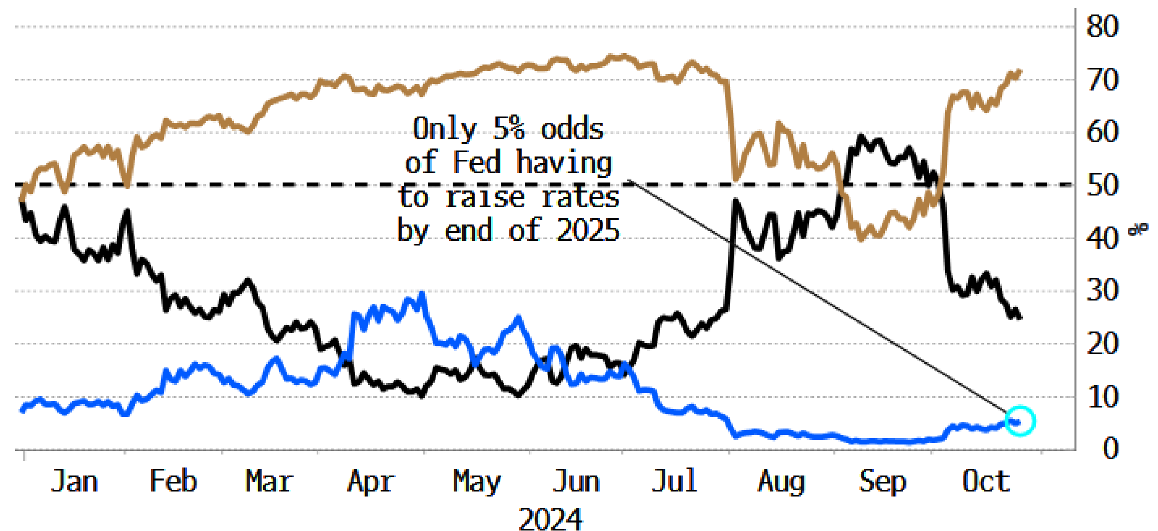
Hedging **Inflation Risk**

Neither presidential candidate in the 2024 election is expected to curtail the deficit, suggesting a continuation of the current inflationary trend. China's recent stimulus measures pose another potential re-inflationary risk. Chinese deflation has helped moderate global and US inflation. The substantial stimulus package suggests a shift towards reflation in China, which could spill over into the US, especially with domestic inflation still above the target level.

Treasury Inflation-Protected Securities (TIPS) are materially underpricing rising inflation risks in the US, making them an attractive option for portfolio diversification and inflation hedging.

1. The market does not expect inflation to accelerate – as the five-year breakevens are at 2.30%.
2. Rates markets are also pricing in a return to a world of stable and low inflation. Based on SOFR options, there is only a 5% probability that inflation will return to cause the Federal Reserve to raise interest rates again by the end of next year.

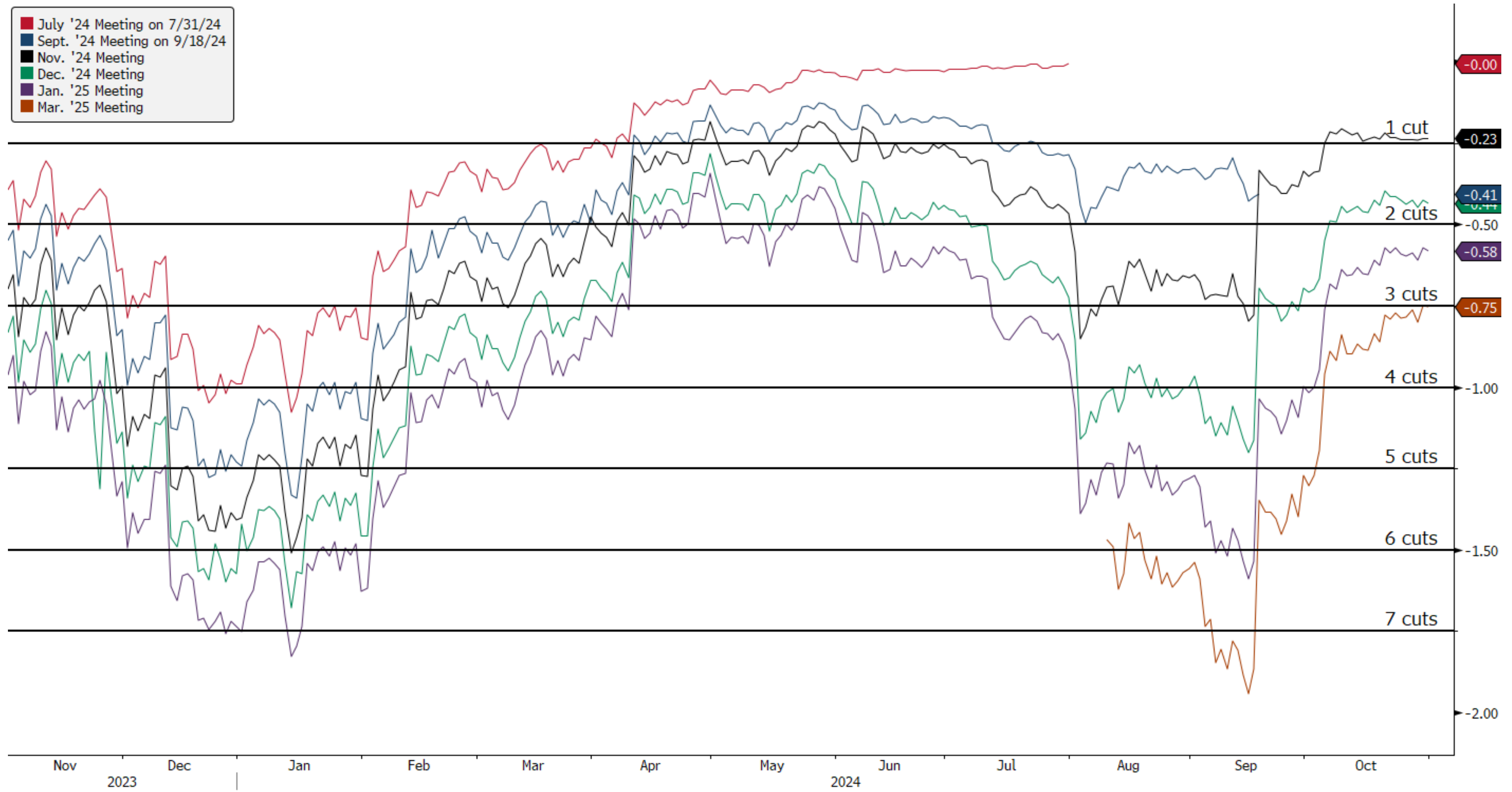
It's clear that inflation risks will remain high until either president encourages fiscal restraint. As long as markets don't fully account for this, hedging that outcome is cheap.



Source: Bloomberg; Macrobond

Short Term Rates **Expectations**

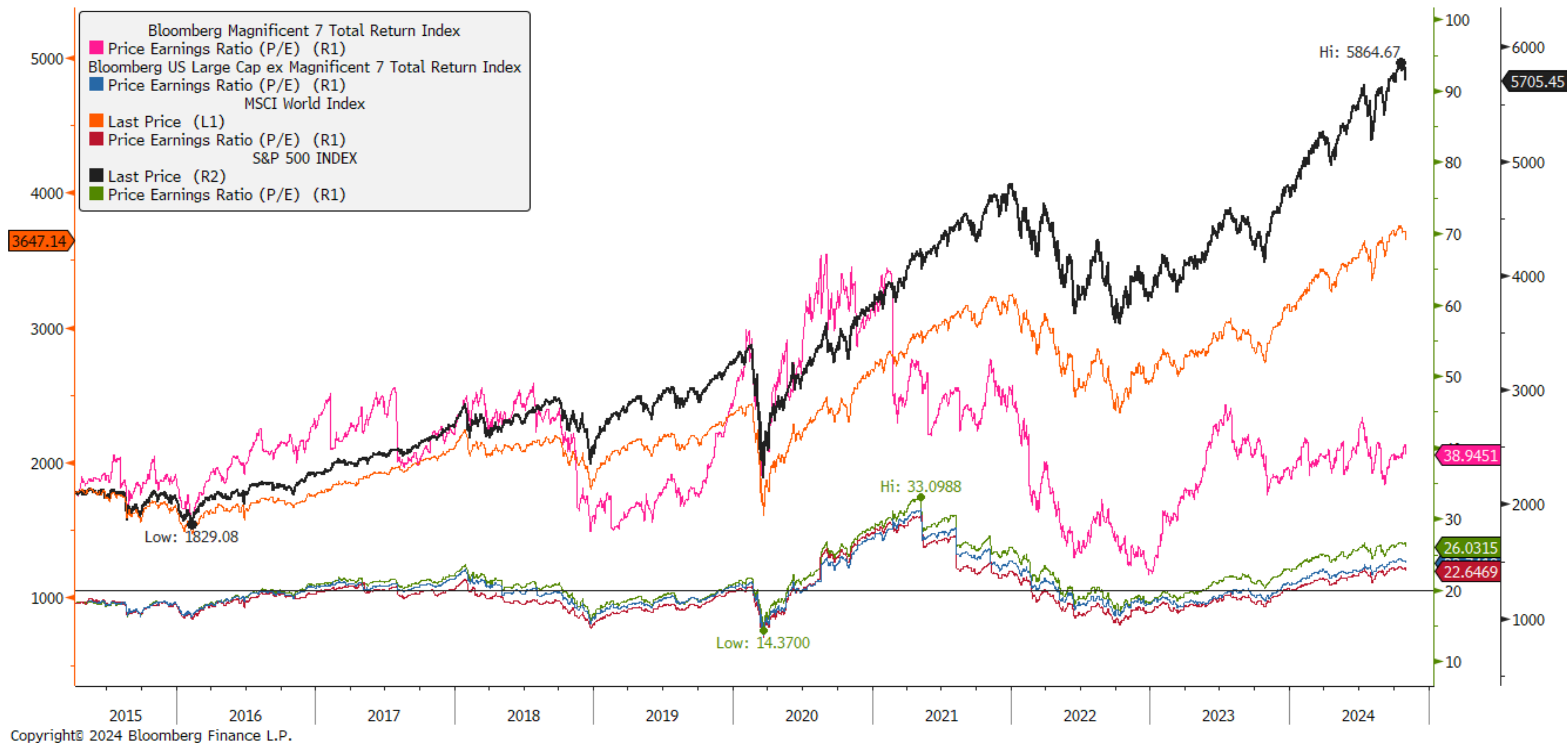
US rate cut expectations have evolved significantly over the course of 2024, shifting from expectations of gradual easing to more aggressive cuts by the Federal Reserve, driven by improving inflation data and concerns about economic growth. Markets are currently pricing in around two more rate cuts (of 0.25%) by the end of the year (green line).



Equity **Valuations Multiples**

While the S&P 500's current P/E ratio suggests some overvaluation relative to historical averages, the interpretation of this metric is becoming increasingly difficult. The index is driven by a small number of stocks, leading to concerns about "bad breadth". This narrow lead can make the market more susceptible to fluctuations in these few companies.

The Magnificent Seven stocks have significantly higher P/E ratios than the rest of the index. Their elevated valuations, driven by tech enthusiasm and the prospects of AI, carry the risk of lower long-term returns. We recommend diversifying portfolios beyond these large-cap tech stocks to reduce the idiosyncratic risk associated with the Magnificent Seven.

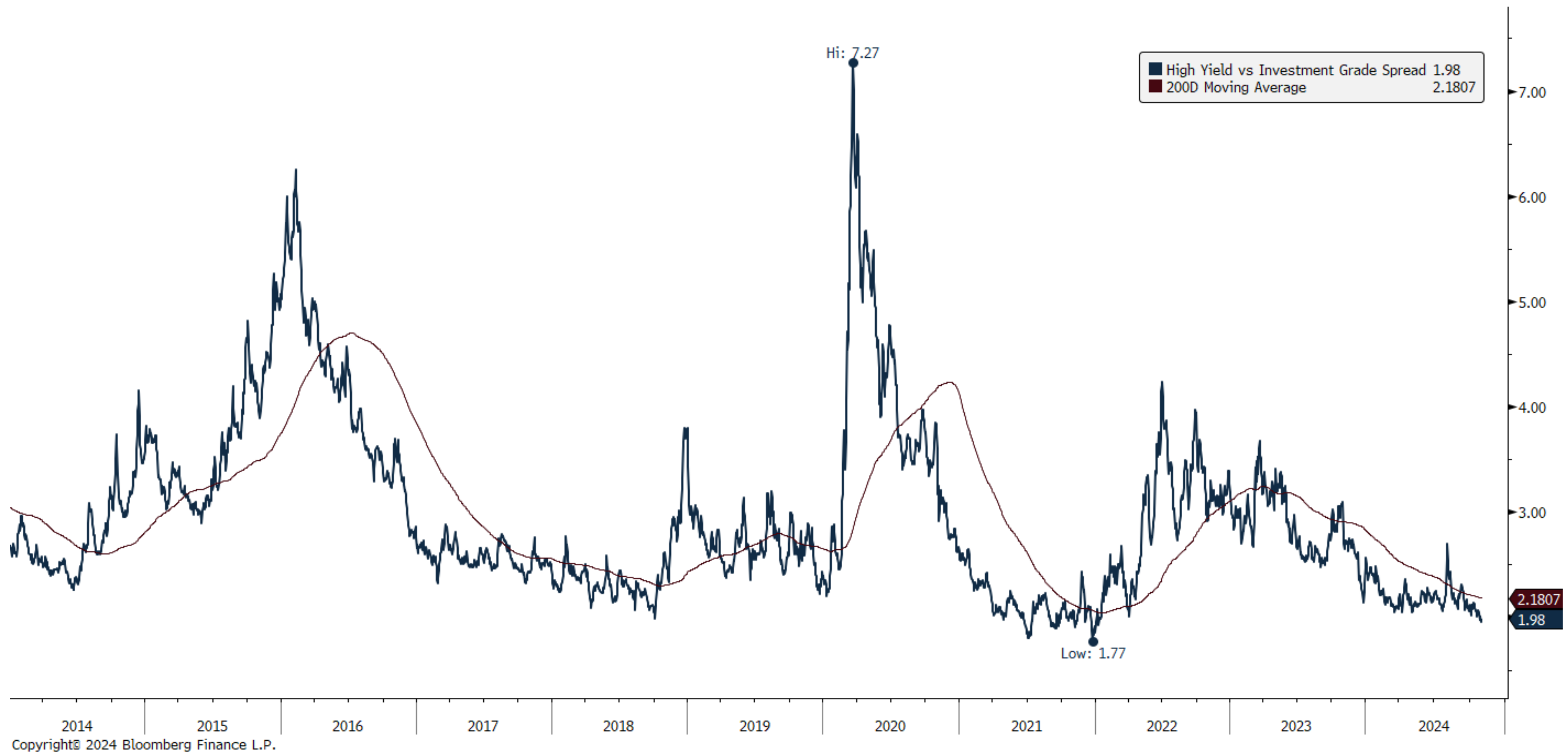


Key **Investment Themes**

- Uncertainty over interest rates and the volatility spikes that can accompany disappointing market releases on top of high valuations reinforce our conviction that **diversification is a core strategy -** particularly important as geopolitical uncertainties persist, whether in the Red Sea, the Middle East, Ukraine or Taiwan.
- Further rate cuts are starting to be priced in by the market, now indicating two additional rate cuts (of 0.25%) between now and the end of the year. The inflation target could well become the floor in this new economic cycle, with core inflation expected to remain above the 2% target by the end of 2024.
- Our recommendation is to focus on **quality stocks** with solid balance sheets and a long-term vision.
- On the **fixed-income** side, corporate bonds are facing higher interest costs overall, and potentially refinancing difficulties in the high-yield segment. Our preference at this stage of the cycle is for **higher-rated companies** rather than high yielding issuers. Note that we recently increased the duration of our selection.
- In the current interest-rate environment, our approach remains focused on carry strategies via bonds. We therefore maintain an **underweight in the alternative class,** capitalizing on the stability and predictable returns offered by bond instruments. However, we remain attentive to the opportunities offered by alternative investments, with their potential for returns uncorrelated with traditional markets.

Our preference for **Investment Grade**

On the fixed income side, corporates are facing higher interest costs and potential refinancing difficulties in the high yield segment. At this stage in the cycle, we prefer higher-rated companies rather than high-yield issuers, which we believe are not worth the risk.



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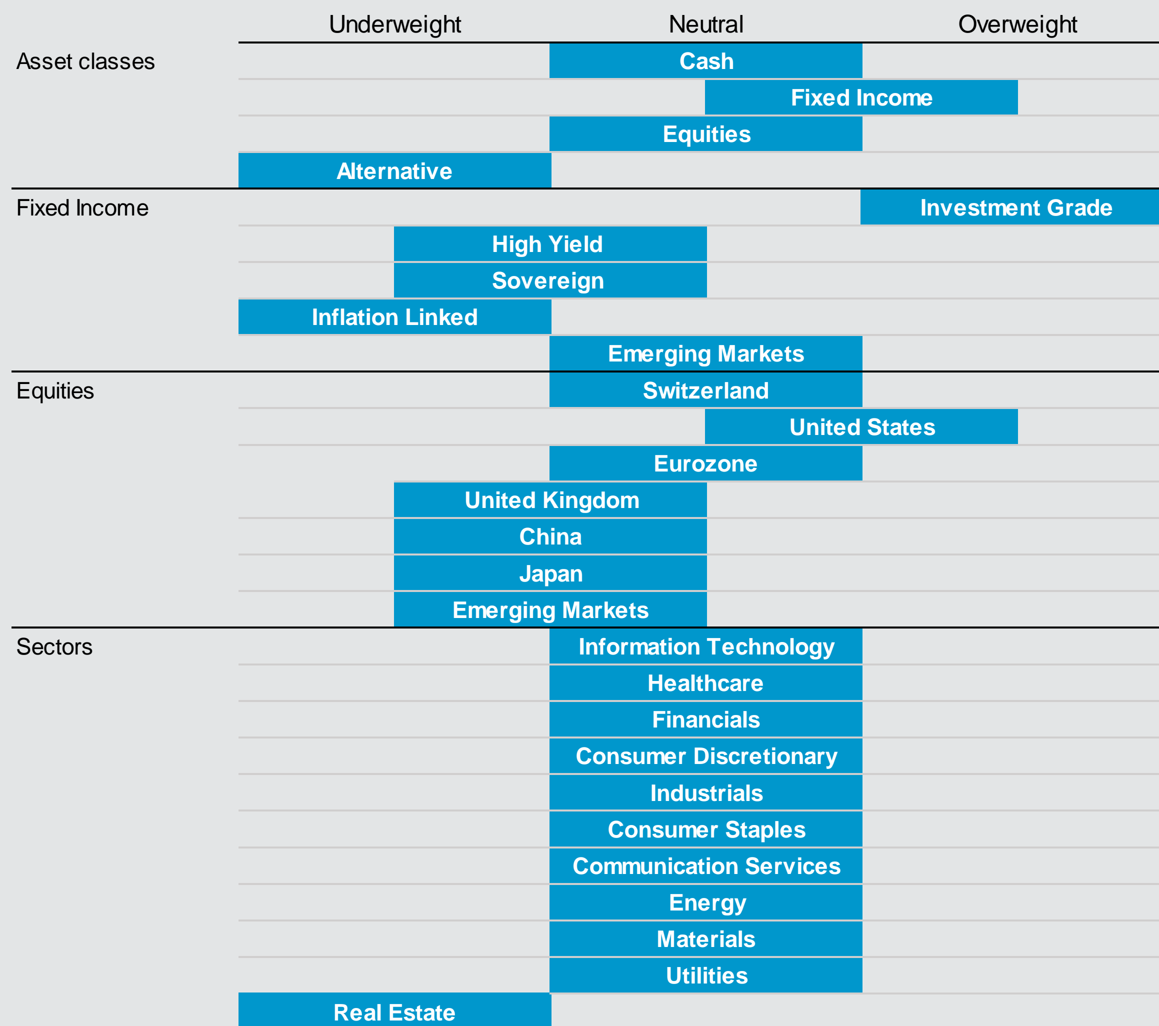
Asset **Allocation**



Fixed-income allocation

Our flagship allocation for 2024, we expect yields to fall in the medium term and the yield curve to "heal" in the US and Europe. Our selection focuses on the highest-quality issuers offering extremely attractive risk-adjusted returns. Recently, we increased the duration of our selection.

Equities

The different scenarios lead us to a more neutral approach to equities, where sector and regional diversification is more necessary than ever. The resilience of the United States leads us to a greater allocation to that country. We keep a neutral stance on the domestic equities in Europe and Switzerland.

Alternative investments

In the current interest rate environment, our approach remains focused on carry strategies through bonds. We thus maintain an underweight allocation to alternative investments, capitalizing on the stability and predictable returns offered by bond instruments. Nevertheless, we remain attentive to opportunities offered by alternative assets, given their potential for returns uncorrelated with traditional markets.

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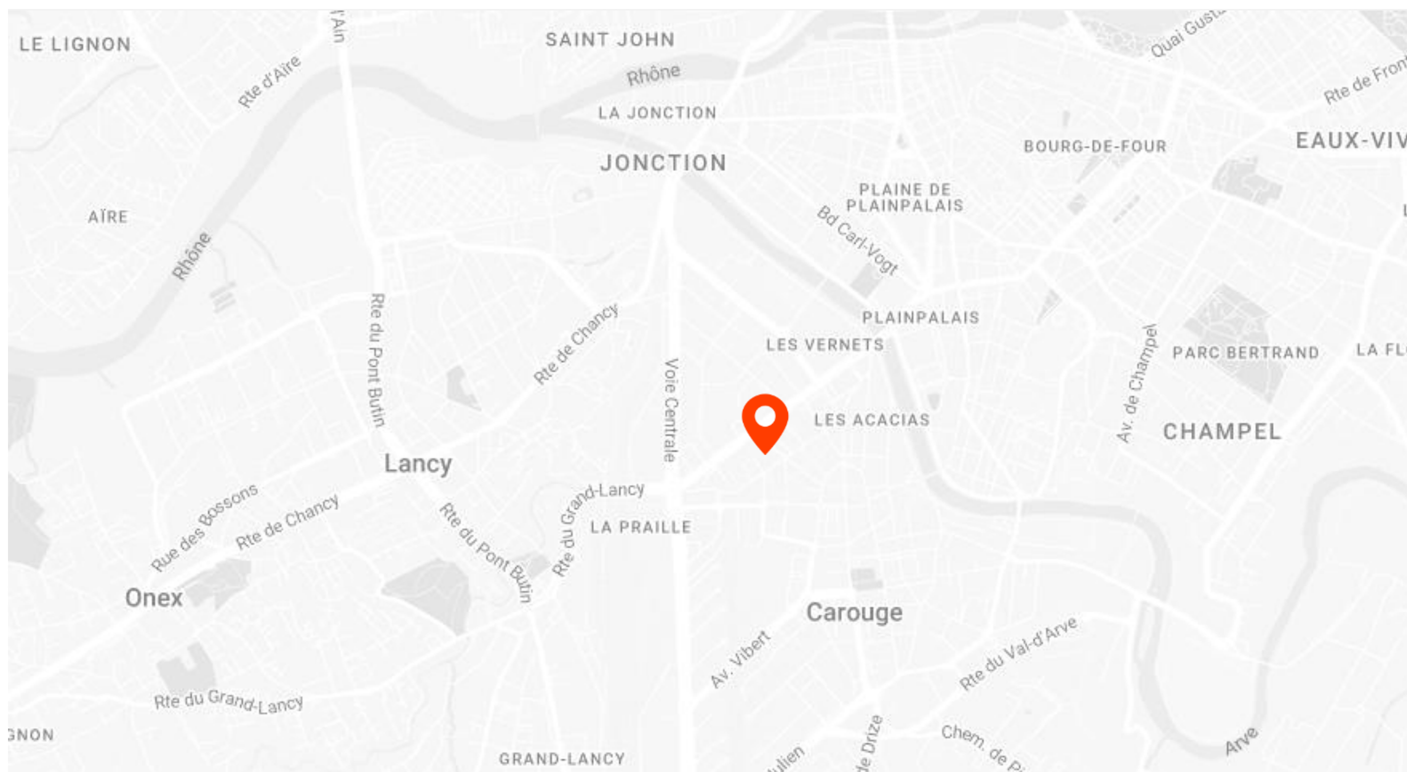
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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